4-26-2010

State of Maine Management Letter For the Year Ended June 30, 2009

Maine State Auditor's Office

STATE OF MAINE
MANAGEMENT LETTER

For the Year Ended
June 30, 2009

State of Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
MARY GINGROW-SHAW, CPA, CIA
SINGLE AUDIT COORDINATOR
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

LETTER OF TRANSMITTAL

Honorable John Elias Baldacci
Governor of the State of Maine

Honorable Elizabeth H. Mitchell
President of the Senate

Honorable Hannah M. Pingree
Speaker of the House

We are pleased to submit the State of Maine Management Letter for the Year Ended June 30, 2009. In the course of conducting the Single Audit of the State of Maine, and our consideration of internal control, we became aware of matters that offer opportunities for our government to improve its operations. Audit findings and recommendations on these matters accompany the Management Letter as Management Letter Comments.

Please feel free to contact me with any questions that you may have. Like you, we are committed to improving our State government for the benefit of our citizens. Healthy discussion of problems found, and solutions considered, is part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

April 26, 2010

State of Maine
Management Letter for the Year Ended
June 30, 2009

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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2009, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit we became aware of several matters referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the State. The following pages summarize our comments and suggestions on those matters and are in addition to the more significant issues addressed in the following reports included in Maine's 2009 Single Audit Report.

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Included with the management letter comments are the audited agencies' responses. We would be pleased to discuss these management letter comments in further detail at your convenience.

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

April 26, 2010

2009 Management Letter Comments

Department of Administrative and Financial Services

(ML09-0203-01)

Accounts receivable process needs improvement

State Bureau: Office of MaineCare Services
Office of the State Controller
Health and Human Services Service Center

Condition: As of June 30, 2009, the balance of cost settlement accounts receivable per the State's accounting system was approximately $2.9 million greater than the detail records maintained by the agency. In addition, one out of ten items reviewed from the agency detail records was due from a company that went out of business in August 2003.

Context: The accounting system total related to these receivables was $41.2 million while the agency receivable records amount was $38.3 million. The amount of the receivable due from the closed business was $1.4 million.

Cause: Adjustments were not periodically posted to the accounting system

Effect: Lack of assurance that receivables are recorded accurately in the State's accounting system

Recommendation: We recommend that the Department's Medicaid cost settlement accounts receivable balance differences be resolved and that the necessary reconciling adjustment(s) be made to bring the State accounting and detail records into agreement. In addition, we also recommend that the collectability of the Medicaid Cost Settlement accounts receivables be assessed so that the receivables are presented at the correct amounts on the financial statements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Finance Recovery Team will resolve the balance differences between the agency receivable records and the State accounting system The cost settlements receivable account will be adjusted and reconciled by March 31, 2010. We will reconcile the account on a monthly basis going forward. In addition, we will assess the collectability of the Medicaid Cost Settlement accounts receivable.

Contact: *Richard E. Violette, Management Analyst II, 287-4033*

(ML09-0204-01)

MERITS security management practices need improvement

State Bureau: Maine Revenue Services

Criteria: Office of Information Technology Security Policies

Condition: Controls are not adequate to ensure that access to the MERITS tax system is properly managed.

Context: We reviewed Maine Revenue Services policies and procedures for managing MERITS user accounts and monitoring user activity.

Cause: Maine Revenue Services has not adequately assessed information security risks.

Effect: Users may obtain inappropriate access to MERITS

Recommendation: We recommend that the Department evaluate MERITS user security management practices, consider security risks, and implement procedures that will ensure proper segregation of duties related to the management and monitoring of MERITS user security.

Management's Response/Corrective Action Plan: *MRS recognizes the requirement for strong application access controls and the risks associated with control weaknesses. A corrective action plan to address and resolve the identified access control deficiencies has been initiated.*

It should be noted that prior to deployment, the security of the MERITS on-line system, including a full vulnerability assessment and penetration test to assess security against unauthorized access, was tested and certified by OIT in compliance with its deployment certification policy. MERITS is an internal system, only accessible by users authorized access within the state's firewall and after they log onto the State's network. The risks associated with the identified deficiencies are limited to those users.

***Contact:** Jerome Gerard, Acting Executive Director Maine Revenue Services, 624-7854*

(ML09-0305-01)

Inadequate internal controls over accounts receivable

State Bureau: Division of Financial and Personnel Services (DFPS)

Condition: DFPS did not adequately reconcile the State's accounts receivable related to lottery agents.

Context: A $1.3 million accounts receivable variance exists between the State and the on-line and instant lottery games service provider at year-end.

Cause: The State's service provider cannot produce the necessary reports to enable DFPS to prepare this reconciliation.

Effect:

- State's financial statements may be misstated
- State may not have an accurate accounting of the actual receivable from the lottery agents.

Recommendation: We recommend that the Department work with the service provider to ensure that future reports utilized for financial reporting by the State are complete and accurate.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services, agrees with this finding.*

The General Government Service Center (GGSC) currently reconciles financial statements on a monthly basis and balance sheets on a quarterly basis. The State's service provider cannot provide the necessary reports in order for the GGSC to reconcile accounts receivable. In the last few years, we have met with the Office of the State Controller and the service provider to try and resolve this issue. No resolution occurred as the service provider cannot produce the needed reports. The contract with the current service provider ends on June 30, 2011. The RFP, and subsequent agreement, will require that an accounts receivable report be issued by the provider so that this issue will be addressed.

Contact: *Elaine Babb, GG/NR Service Center Director (624-7413)*

(ML09-0308-01)

Access controls over Unemployment Benefits System not adequate

State Bureau: Bureau of Unemployment Compensation
Office of Information Technology (OIT)
Security and Employment Service Center

Condition: Controls are not sufficient to ensure that client information in the Unemployment Benefits System is properly managed.

Context: We tested procedures for managing UI Benefits System user accounts and monitoring activity.

Cause: Security risks have not been adequately assessed

Effect: OIT administrators for MDOL are provided inappropriate access to the system

Recommendation: We recommend that OIT-Labor staff responsible for the administration of the system evaluate the adequacy of system controls and develop procedures that will ensure proper system security.

Management's Response/Corrective Action Plan: *The Department acknowledges that security enhancements are required. The recommendations from the Department of Audit have been reviewed, and the Office of Information Technology is identifying measures that can be implemented.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML09-0920-01)

Internal control over the Automated Client Eligibility System (ACES) should be improved

State Bureau: Office of Information Technology
Office of Integrated Access and Support

Condition: A self-assessment questionnaire completed by key personnel indicates that controls should be improved related to the ACES system. In addition, audit testing revealed other areas where procedures are not consistent with the Security Policy.

Context: The ACES system is an electronic information system that is used by various health and welfare programs.

Cause: Inadequate attention to security requirements

Effect: Internal control procedures do not meet the standards set by the State Security Policy.

Recommendation: We recommend that systems personnel employed by the Office of Information Technology and the Office of Integrated Access and Support continue to jointly address the requirements of the State Security Policy.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and the Office of Information Technology agree with this finding.*

The Office of Integrated Access and Support (OIAS) and Office of Information Technology (OIT) continue to work on implementing enhanced controls in areas highlighted by the audit finding. OIT's Internal Auditor plans on completing this type of review on a regular basis to ensure that management has the ability to monitor progress effectively and to ensure these improvements continue.

Contact: *Anthony Pelotte, Director, MIS & QA, 287-3460*

(ML09-1100-01)

Cash drawdown procedures not adequate to ensure timely draws

State Bureau: Health and Human Services Service Center

Condition: The Department did not make timely cash draws.

Context: Thirty out of 63 drawdowns tested had components that were identified as being drawn later than the earliest date permitted by the Treasury State Agreement (TSA).

Cause: Controls were not in place to ensure that TSA techniques and clearance patterns were followed.

Effect: Less interest earned by Treasurer's cash pool

Recommendation: We recommend that the Department develop cash drawdown procedures in accordance with TSA requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Inadequate staffing did not allow the Service Center to address compliance with the TSA until late November of 2008. At that point all program accountants were made aware of CMIA requirements under the agreement, and we began to explore methodologies that would ensure compliance with the State fiscal year 2009 TSA as written, and at the same time to research whether changing funding techniques in the TSA would allow us to maintain compliance more efficiently. Our requests to change funding techniques was submitted in early January 2009, all these changes were approved in the amended TSA effective February 11, 2009, and all procedures were in place by early March 2009 (except for CDC where they were not in place until mid-April 2009, and Foster Care where it was determined that by the time they could be in place, Foster Care would no longer be a major program).

Contact: *Jeff Miller, Financial Analyst, 287-1876*

(ML09-1101-02)

Audit cost settlement collection process is not adequate

State Bureau: Health and Human Services Service Center

Condition: Audit cost settlement procedures were not adequate to ensure collections of amounts due to the State.

Context: Three of the 50 cost settlement audit closeout reports tested included receivables that were not recorded in the State's accounting system

Cause: Lack of adequate oversight procedures

Effect: The Department may not collect all amounts due from providers.

Recommendation: We recommend that the Department continue to develop and implement audit closeout collection procedures to properly monitor subgrant agreement settlements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agrees with the finding.*

As of the first quarter of State fiscal year 2010, Service Center personnel have been entering the payments due to providers or the State in the AdvantageMe system. This information is sent to the Finance Recovery Team (FRT). The FRT tracks the receivables and makes the collections

Contact: *Diane Williamson, Manager Staff Accountant, 287-6390*

(ML09-1103-02)

Procedures not adequate to ensure that costs are allocated in accordance with cost allocation plans

State Bureau: Health and Human Services Service Center

Condition: The Department did not allocate all costs in accordance with the Department of Health and Human Services' and Office of Child and Family Services' revised cost allocation plans. We noted that some costs were incorrectly allocated, calculated, and/or reported. We also noted that Department personnel were not working together to improve the accuracy and timing of final receiver reports.

Context: We tested the costs allocated for one quarter of the fiscal year and noted the following:

- Temporary Assistance for Needy Families (TANF) was overcharged $22,590 for one allocated cost; however, the program underreported these same costs by $230,683
- Some costs were allocated between TANF and the Supplemental Nutrition Assistance Program (SNAP) when the costs should have been a direct charge to SNAP; however, program personnel reported the correct amounts
- Rent charges were based on full time equivalent data instead of square footage
- Time spent on two different programs was charged to one time sheet code, resulting in an inaccurate allocation of costs
- Three programs were not utilizing their respective final receiver reports
- The Medicaid Cluster, Foster Care, and TANF programs need to pay for their fair share of allocated costs of $50,000 (based on the one quarter we reviewed), $73,000, and $514,000 respectively. In addition, $4,000 in costs over-allocated to the Adoption Assistance program should be returned.

Cause:

- Human error
- Lack of communication and training
- Insufficient data for cost allocation
- Failure to reconcile final receiver report expenditures to the State's accounting records
- Incorrect allocation method used to allocate costs
- Untimely issuance of final receiver reports

Effect: Not properly allocating costs could result in the following issues with federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department continue in its efforts to develop a revised cost allocation plan that more accurately reflects current operations. We further recommend that a review of allocated cost accounts be completed to ensure proper and reasonable allocation methods are assigned and final receiver reports and cost allocation journals are processed accurately and timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agrees with the finding.*

Methods of allocating costs to TANF and SNAP were corrected in State fiscal year 2010. The Service Center also created additional timesheet codes for the Office of Child and Family Services and revised rent allocation methods in 2010. The Service Center will continue its review of all cost allocated accounts to ensure proper allocation methods are assigned.

There were additional allocated costs to the Medicaid, Foster Care, and TANF programs in State fiscal year 2009 due to a revised statistic. The programs intend to pay their remaining share of allocated costs in state fiscal year 2010. Adoption Assistance intends to return overallocated costs in 2010.

Contact: *Heidi Sherburne, Financial Analyst, 287-6406*

(ML09-1103-03)

Procedures related to federal reimbursements for allocated costs need improvement

State Bureau: Health and Human Services Service Center

Condition: The Department did not request reimbursement of $2.5 million for the federal share of certain allocated costs

Context: The Department of Health and Human Services shares costs with the federal government under an approved cost allocation plan.

Cause: Accounts were not set up to record these federal reimbursements

Effect:
- Period of availability requirements may preclude the State from recouping these funds
- Loss of cash pool interest

Recommendation: We recommend that the Department continue its efforts to establish accounts to record federal reimbursements for allocated costs. We further recommend that the Department request federal reimbursement when the appropriate accounts have been established.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Service Center submitted supplemental budget revisions to establish these accounts for State fiscal year 2011. Once the accounts have been established federal reimbursement will be requested.

Contact: *Heidi Sherburne, Financial Analyst, 287-6406*

(ML09-1106-11)

Procedures to ensure timely deposits not adequate

State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Division of Audit

Condition: Controls over deposits of certain Medicaid related receipts were not sufficient:
- Approximately 50% of the deposits in our sample were not in compliance with statutory time requirements for depositing funds into State accounts
- Evidence to support the date that six checks, totaling $95,248, were submitted for deposit to the Department of Health and Human Services' Service Center could not be provided

Context:

- Maine statutes require immediate deposit of collections received by all State agencies
- We tested 542 checks totaling $11.4 million related to recoveries made by the Division of Audit and the Program Integrity Unit. Of the checks tested, adequate documentation was not maintained for six, or approximately 1% of the sample population.

Cause:

- Procedures were not sufficient to ensure that deposits were made in a timely manner
- Until March 2009, checks were not registered upon receipt or tracked during processing to ensure deposits took place
- Adequate documentation was not maintained to support all the deposits made

Effect:

- Potential loss of funds
- Funds may be credited to the wrong account

Recommendation: We recommend that the Departments of Health and Human Services and Administrative and Financial Services continue in its efforts to establish consistent procedures for submitting, depositing, recording and tracking deposits related to Program Integrity and Division of Audit recoveries.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As of March 5, 2009, a check log has been instituted for all offices that submit funds to the Finance Recovery Team (FRT). The check log contains the date, name, provider ID, check number, amount and date of each check sent to FRT. The physical checks are sent by interoffice mail and the check log is sent electronically to FRT. The check logs are added to the master check log where the date checks are received, the date of deposit and the transaction number are recorded. The submitting offices have the ability to review the master check log. Beginning March 1, 2010 the physical checks are placed in a sealable security bag and are given to a courier who delivers the security bags to DHHS Finance for processing.

In those cases that we were unable to provide the date we received the check for processing the date on the check and the date of the deposit would indicate a two to four week lag. The FRT staff has been instructed concerning the importance of identifying the receipt date for all checks. We will capture the date that we receive the check in the future.

Contact: *Richard Violette, Management Analyst, 287-4033*

(ML09-1106-15)

Procedures over client case counts need improvement

State Bureau: Office of Information Technology Services
Office of MaineCare Service

Condition: The June 2009 case count reports generated by the State's claims processing system contained 10,295 more cases than the eligibility system (WELFRE). The reason(s) for this variance has not been determined.

Context: There are several computer systems involved in transferring eligibility data into MeCMS (Maine Claims Management System) in order for it to process medical claims. The Automated Client Eligibility System (ACES) is the current computer system used by eligibility staff to determine member eligibility for Medicaid and CHIP benefits. This system was originally intended to replace the legacy eligibility system known as "WELFRE" and to transfer eligibility data directly into MeCMS. However, technical issues prevented the complete replacement of WELFRE, and as a result, ACES must transfer its eligibility data through WELFRE which, in turn, transmits this information to MeCMS.

Cause:

- WELFRE data and history limitations
- Redundant client eligibility information systems

Effect:

- Eligibility files may lack uniformity
- Potential for errors and irregularities
- Potential for inaccurate state-reported data on behalf of Medicaid and CHIP enrollees relative to CMS' Medicaid Statistical Information System (MSIS) State Summary Datamart

Recommendation: We recommend that the Department establish procedures to actively identify, compare and resolve client count discrepancies among the various payment and eligibility systems used for programs administered as MaineCare.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

The Office of Information Technology Services and Office of MaineCare Services continues to actively identify, compare and resolve client count discrepancies. The numbers differences have to do with point in time counts and over the month unduplicated counts. In addition, the implementation of the MIHMS application in the first quarter of State fiscal year 2011 will resolve the discrepancies among the various payment and eligibility systems.

Contact: *Jim Lopatosky, Associate CIO for Applications, 624-8800*

(ML09-1302-02)

Indirect Cost Rate Agreement not approved by the federal cognizant agency

State Bureau: Security and Employment Service Center (SESC)

Condition: The Security and Employment Service Center (SESC) did not have an approved Indirect Cost Rate Agreement (ICRA) for the 2009 fiscal year. The method used by SESC to allocate indirect costs was based on the ratio of personal services expenditures charged to each task code for the previous quarter as compared to total grant expenditures for that quarter. The resulting ratio was then used as a basis for allocating indirect costs in the current quarter.

Context: For fiscal year 2009, SESC reported that $1 million of indirect costs had been allocated to various unemployment compensation programs using this method.

Cause: SESC reported that they had verbal approval from their federal cognizant agency to use this allocation methodology.

Effect: Lack of an approved ICRA for allocating indirect costs

Recommendation: We recommend that SESC submit their ICRA to their federal cognizant agency for approval and use this method for allocating indirect costs.

Management's Response/Corrective Action Plan: *We agree with this finding.*

The request has been made to have official federal approval of the method that has been used and approved in prior years.

Contact: *Dennis Corliss, Service Center Director, 623-6701*

(ML09-1308-04)

Procedures for cash draws not adequate

State Bureau: Security and Employment Service Center

Condition: The Department did not draw funds in accordance with the specified funding method outlined in the 2009 Treasury State Agreement (TSA).

Context: Seventy-three percent of federal cash was not drawn down in accordance with the Treasury-State Agreement. Most cash draws were later than allowed.

Cause: Inadequate monitoring procedures

Effect: Loss of interest earned by Treasurer's cash pool

Recommendation: We recommend that the Department follow established procedures to ensure that federal funds are drawn in accordance with cash management requirements.

Management's Response/Corrective Action Plan: *The Department agrees with this finding. However, the program is not part of the TSA in State fiscal year 2010, so a corrective action plan is not applicable.*

Contact: *Marilyn Leimbach, Financial Analyst, 623-6714*

(ML09-1315-01)

Collection procedures need improvement

State Bureau: Security and Employment Service Center

Condition: A subrecipient of the Workforce Investment Act (WIA) program subleases space from the Maine Department of Labor at several of the Department's Career Centers. The agency is delinquent on their rental payments by $107,184. Of this amount, $86,016 dates back to 2004.

Context: Annual rental charges are $79,000

Cause: Adequate collection procedures were not in place

Effect: Loss of rental income

Recommendation: We recommend that the Department continue to pursue the collection of the past due rent.

Management's Response/Corrective Action Plan: *We agree with this finding.*

The service center creates an invoice and provides a monthly aging to various personnel within the service center and departments so that a variety of individuals are aware of the status of any account. When amounts become delinquent the service center will continue to consult with the Attorney Generals Office regarding means of collection.

Contact: *Dennis Corliss, Service Center Director, 623-6701*

(ML09-1315-02)

Inadequate procedures over financial reporting

State Bureau: Security and Employment Service Center

Condition: The Department of Labor is required to submit quarterly financial status reports for the Workforce Investment Act program. The 9130 Local Youth reports did not include all required information.

Context: Two of six 9130 Local Youth quarterly reports submitted during fiscal year 2009 were reviewed.

Cause:
- Reporting error
- Inadequate supervisory review

Effect: Financial information relating to expenditures not reported

Recommendation: We recommend that the Department of Labor include all required financial information on the quarterly 9130 Local Youth reports.

Management's Response/Corrective Action Plan: *We agree with this finding.*

The subrecipients have been providing the necessary information in accordance with quarterly reporting instructions. This information has been included on the 9130 reports since the quarter ending September 2009.

Contact: *Dennis Corliss, Service Center Director, 623-6701*

(ML09-1315-03)

Accounting for expenditure transactions not adequate

State Bureau: Security and Employment Service Center

Condition: The accounting procedures used by Workforce Investment Act (WIA) for recording expenditure transactions did not adequately segregate program expenditures by grant year.
- The administrative portion of the State Reserve had expenditures of $175,080 that were allocated to the incorrect program year.
- Rapid Response expenditures of $155,827 were allocated to the incorrect program year.

Context: In State fiscal year 2009, the WIA program expended over $12 million in federal expenditures from three different federal grant awards.

Cause: WIA is not utilizing the accounting structure provided in the State's accounting system to record expenditures by grant year.

Effect: Inability to track expenditures by grant year.

Recommendation: We recommend that the Department properly record expenditure transactions in the state accounting system according to program period and category.

Management's Response/Corrective Action Plan: *We agree with this finding. These accounts will all be reviewed to ensure that expenditures are recorded in the correct program year.*

The WIA program is broken down into many different units or programs and most definitely the program period. All expenditure spending limits are monitored by establishing the budget for each program. Most of the 9130s are prepared based on worksheets. In the two cases cited, the

9130s were correctly prepared, however an adjusting entry was not made in Advantage to move expenses to the proper program year. As these two accounts have a three year funding life, these accounts are normally handled on a first-in, first-out basis.

Contact: *Dennis Corliss, Service Center Director, 623-6701*

Department of Education

(ML09-1200-06)

Subrecipient monitoring procedures not adequate

State Bureau: Support Systems Team—Education Finance

Condition: The Department did not perform effective monitoring procedures to ensure that required subrecipient audits were completed.

Context: In a sample of 40 subrecipients tested, the Department did not obtain the A-133 Single Audit Report for one subrecipient.

Cause: Inadequate procedures

Effect: If Single Audit findings existed, corrective actions could not be reviewed for adequacy and management decisions would not be issued.

Recommendation: We recommend that the Department develop procedures to determine the amount of total federal funds expended by each subrecipient. In situations where a subrecipient expends in excess of $500,000 in total federal funds, we recommend that the Department obtain and review Single Audit reports. For subrecipients expending less than $500,000 in total federal funds, we recommend that the Department obtain documentation to support this assertion.

Management's Response/Corrective Action Plan: *The Department of Education's process has been to receive a report from the Department of Administrative and Financial Services that lists the federal funds paid to municipalities and school administrative units from the Department of Education and use this report to determine the need for the A-133 Single Audit Report. Unfortunately, this report does not include federal funds from other State Agencies and therefore, does not reflect all possible federal funds paid to these sub-recipients.*

The Department of Education has contacted staff in the Department of Administrative and Financial Services requesting a more inclusive report be provided to the Department of Education. Effective immediately, the Department will annually obtain information from Department of Administrative and Financial Services that will detail the amount of all federal funds sent to each sub-recipient from all State Agencies. Once the Department audit staff has this information, they will be able to better identify what type of audit each sub-recipient will require and inform the sub-recipient of those requirements.

Contact: *Shel Marcotte, Supervisor of Audit, DOE, 624-6863*

(ML09-1201-01)

Discretionary contract procedures not followed

State Bureau: Division of Special Services

Condition: Progress reports on discretionary contracts were not always provided as required. Two out of 20 progress reports were not obtained from the contractor.

Context: Ten out of 19 contracts were tested. Of the ten contracts tested 20 progress reports were required.

Cause: Responsibilities are not clearly delineated for receiving and reviewing progress reports.

Effect: Progress on projects cannot be monitored if reports are not submitted.

Recommendation: We recommend that the Department assign responsibilities regarding the receipt and review of progress reports.

Management's Response/Corrective Action Plan: *The Department of Education does not concur with the finding.*

The data provided for the finding indicated that progress reports were not submitted by the Maine Association of Directors of Services to Exceptional Children (MADSEC). The goals, objectives and strategies of the contract focused on professional development. MADSEC did report on the activities in both hard copy and electronic format. The reports included detailed information on program content, program participants and program participant evaluations of the activities. Reports were also maintained by department personnel and/or Distinguished Educators.

Special Services personnel were actively engaged in program development and implementation for the professional development opportunities, including monitoring progress and providing guidance on required data for the reports.

Contact: *David Stockford, Director of Special Services, 624-6650*

Auditors Conclusion: We reviewed the additional information provided by the Department of Education and determined that the finding remains as stated.

(ML09-1203-03)

Approval procedures for School Food Authorities' (SFA) policy statements not adequate

State Bureau: Child Nutrition Services

Condition: The Department does not have procedures in place to ensure that SFAs are informed in writing of the approval of their policy statements.

Context: The Department does not provide written notification of approval of policy statements to any of the 240 SFAs.

Cause: Lack of adequate procedures

Effect: School Food Authorities could distribute public announcements that contains incorrect information regarding program eligibility, rules or meal costs.

Recommendation: We recommend that the Department implement procedures to ensure that School Food Authorities are provided with written notification of policy statement approval.

Management's Response/Corrective Action Plan: *The Department will notify districts in writing of policy packet approval. A Department signed copy will be returned to the districts. This policy change will take effect at the beginning of the 2011 school year.*

Contact: *Walter Beesley, Education Specialist, 624-6875*

(ML09-1208-01)

Procedures are not adequate to ensure the accuracy of subrecipient grant allocations

State Bureau: Learning Systems Team – Title I-A, Disadvantaged

Condition: The Department of Education does not review subrecipient grant allocation calculations for accuracy.

Context: Funds are allocated to approximately 190 Local Educational Agency (LEA)

Cause: Lack of oversight

Effect: Inaccurate grant allocations could result in incorrect amounts being be paid to subrecipients.

Recommendation: We recommend that the Department provide appropriate oversight to ensure that subrecipient grant allocations are properly calculated.

Management's Response/Corrective Action Plan: *The Department of Education agrees with the finding.*

The following procedures will be initiated in March 2010, as part of the 2010-2011 ESEA/NCLB Title I allocation process, to ensure that calculations for subrecipient grants are correct and free of errors:

- *Any information from USED related to SEA Title I allocation and grant distribution formulas sent to Title I program staff will also be forwarded to the ESEA/NCLB Title 1 Director.*
- *Title I program staff will calculate LEA allocations, based on formulas provided by USED.*
- *A draft list of calculated allocations will be provided to the ESEA/NCLB Title 1 Director for review and approval. A checklist will be developed to ensure that all critical elements have been reviewed for accuracy. Following this review, and any necessary revisions, a statement certifying the accuracy of Title I allocations will be signed by the Title I Director. This statement will be forwarded to the PK-Adult team leader.*
- *A final, approved list of Title I allocations will be provided to LEAs and to GEM, NCLB application contractor, for inclusion in the electronic NCLB application system.*

Contact: *Rachelle Tome, ESEA/NCLB Title 1 Director, 624-6705*

(ML09-1221-01)

Procedures are not adequate to ensure the accuracy of subrecipient grant allocations

State Bureau: Learning Systems Team – Title II-A, Teacher Quality

Condition: Amounts allocated to some Local Educational Agencies (LEAs) were incorrect. The errors were not identified by the Department and this resulted in LEAs being overpaid and other LEAs being underpaid

Context: Funds were allocated to approximately 190 LEAs

Cause: The spreadsheet used to calculate allocation amounts was not subsequently reviewed for accuracy.

Effect: LEAs were allocated incorrect amounts ranging from an over-allocation of $781 to an under-allocation of $5,085.

Recommendation: We recommend that the Department review the LEA allocation spreadsheet to ensure the accuracy of the allocations prior to finalization.

Management's Response/Corrective Action Plan: *The Department of Education agrees with the finding.*

In April of 2009, the Title II Coordinator took measures to improve quality control by having her administrative assistant calculate allocations with her in a parallel process so errors were identified immediately. This new process insures accuracy in calculating FY10.

Contact: *Wanda Monthey, Team Leader, PK-20 Team, 624-6831*

Department of Health and Human Services

(ML09-1101-01)

Subrecipient monitoring procedures not adequate

State Bureau: Division of Audit

Condition: The Department of Health and Human Services (DHHS) does not have proper procedures to ensure all audit reports from subrecipients that expend less than $100,000 in DHHS pass-through funds and more than $500,000 in total federal awards are reviewed. The Department should review Single Audits from subrecipients expending over $500,000 in federal funds regardless of the source or obtain documentation to support that they expended less than the $500,000 threshold.

Context: Four out of 32 subrecipients tested expending less than $100,000 in federal funds from DHHS but more than $500,000 in total State pass-through funds did not receive a Single Audit review. These agencies received between $4,161 and $16,880 from DHHS. DHHS funds not monitored totaled $38,214.

Cause: Lack of adequate procedures

Effect: The Department would not be able to evaluate the planned corrective actions and issue management decisions related to subrecipient audit findings of DHHS programs.

Recommendation: We recommend that the Department continue to refine procedures to ensure compliance with A-133 audit submission and follow-up for subrecipients.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agree with the finding.*

The Division of Audit has revised its monitoring procedures to determine if agencies receiving less than $25,000 of pass through funding from the Department complied with the single audit requirement. The majority of these agencies are schools receiving Title IV funding from the U.S. Department of Education. The Division now lists the amount of federal funding received through the Maine Department of Education P-100 reports. This procedure allows the Division to monitor all agencies requiring a Single Audit.

Contact: *Caroll P. Thompson, CPA, Social Services Program Audit Manager, Maine DHHS Division of Audit. (207) 287-2775.*

(ML09-1106-12)

Ineffective controls over the accounting of the drug rebates

State Bureau: Office of MaineCare Services

Condition:

- An access database, Drug Rebates 2000, separate from the Medicaid Management Information System (MMIS), is used to account for and track rebates owed to the Medicaid program. Variances existed between the rebate amounts reported on the CMS-64 report and data from Drug Rebates 2000.
- The current MMIS does not have the ability to calculate interest due from manufacturers for receivable balances outstanding for more than 38 days as required by federal regulations.

Context: There is a $763,000 variance between the CMS-64 report and the Drug Rebates 2000 system

Cause:

- Resources have not been dedicated to resolving this variance.
- The State agency's claims management system does not calculate interest due from manufacturers. Reliance is placed on the manufacturers to calculate interest on unpaid balances.

Effect:

- The State Medicaid agency does not know how much interest is due from manufacturers. As a result, there is a potential loss of revenue to the Medicaid program.
- Possible inaccurate federal financial reports

Recommendation: We recommend that the Department include a process to accurately track individual amounts owed by manufacturers in the design of the new MMIS system currently being developed. We further recommend that the Department include a process in the design of the new MMIS system to calculate interest owed on outstanding balances older than 38 days as required.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

In State fiscal year 2011, the Department will implement its new fiscal agent. As required under the State-Unisys Fiscal Agent contract, the Department has received verbal and written assurances from Unisys that the new drug rebate subsystem will accurately track individual amounts owed by manufacturers. Further, the State has been involved in system testing activities to confirm this. The assurances are supported by detailed desk level procedures we have received from Unisys.

While the present drug rebate system has never been able to calculate interest, the new rebate system (i.e. PRIMS) developed by Unisys will provide complete functionality with respect to this finding. Not only will the new system calculate interest due on late payments attributed to the current quarter, it will also be able to "look back" in order to calculate interest on late and/or unpaid pre-PRIMS outstanding balances.

Contact: *Scott Goulette, Manager Drug Rebates, 287-1999*

(ML09-1109-02)

Inadequate procedures to ensure payments were not made to suspended or debarred parties

State Bureau: Office of Child and Family Services

Condition: The Department failed to ensure that payments were not made to suspended or debarred parties. Of the twenty vendors were tested, one did not have the required certification.

Context: Twenty vendors received greater than $25,000 in federal funds, totaling $4.7 million.

Cause:

- Staff turnover
- Procedures not followed

Effect: Failure to comply with these program requirements could result in payments to vendors that have been suspended or debarred by the federal government, possibly resulting in disallowed costs.

Recommendation: We recommend that the Department implement control procedures to ensure that:

- Suspension and debarment language is included all contracts, or
- A certification is obtained from the vendor, or
- The Excluded Parties List System (EPLS) website is checked for all vendors receiving greater than $25,000 in federal funds.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

As of June 2009, suspension and debarment language is included in agreements. In addition, OCFS Residential Services has a new database to track data, including tracking when an EPLS check has been completed for each foster care, transitional living, and residential PNMI provider receiving more than $25,000 in federal funds. Since contracts may span more than one year, the EPLS website will be checked on a yearly basis by the Residential Program Specialist.

Contact: *Christa Elwell, Director, Public Service Manager, Child and Family Services, 624-7921*

(ML09-1110-01)

Procedures were not adequate to ensure use of approved daily rate for adoption subsidies

State Bureau: Office of Child and Family Services

Condition: The Department did not ensure that the approved daily rate was paid for all adoption subsidy payments.

Context:
- Forty clients receiving adoption subsidies were tested
- The incorrect rate was paid for four days during State fiscal year 2009 for 23 of the 40 clients tested

Cause: The approved daily rate was updated in Maine Automated Child Welfare System (MACWIS) subsequent to its effective date.

Effect: Subsidy overpayment; however, likely questioned costs were less than $10,000.

Recommendation: We recommend that the Department implement procedures to ensure that MACWIS rate changes are updated timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The request to the programmer was interpreted not as the 1st of July but the first payment cycle of July. Because of the complexity of the process in which the last cycle of June and the "first cycle" in a new year is accounted for in the MACWIS system to meet financial services requirements, the programmer implementing this change misinterpreted the request and made the adjustment starting on the first day of the first payment cycle in 2009 rather then July 1, 2009. Thus four days were not adjusted. All adjustments were made in January 2010. This was not an error associated with the programming of the system, but rather a misinterpretation of the manual adjustment process.

Contact: *Robert Blanchard, Program Manager, MACWIS/Data, 624-7955*

(ML09-1113-01)

Procedures not adequate to ensure timely deposit of rebate checks

State Bureau: Center for Disease Control and Prevention

Condition: Rebate checks received by the Supplemental Nutrition Program for Women, Infants and Children are not being deposited upon receipt.

Context: We reviewed all 14 rebate checks deposited during fiscal year 2009. Seven rebate checks were held between seven and 25 days prior to deposit. These checks were not deposited within a reasonable time period and ranged in amounts from $577 to $420,424.

Cause: Lack of knowledge of State regulations

Effect: Checks could be lost or stolen

Recommendation: We recommend that checks be deposited in accordance with State statutes.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of July 1, 2009, rebate checks received by the Special Supplemental Nutrition Program for Women, Infants, and Children are being deposited electronically. Therefore, the deposits are being made in accordance with State regulations.

Contact: *Dena Darveau, Financial Manager, 287-1469*

Please see the following comments for other issues related to this Department.

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(ML09-1106-15) ***page 10***

Department of Labor

(ML09-1302-03)

Accounts not corrected prior to calculation of Unemployment Insurance (UI) contribution rate

State Bureau: Unemployment Compensation

Condition: Unemployment Insurance taxes applied to the employers' accounts, which are used in calculating unemployment insurance contribution rates, erroneously included Competitive Skills Scholarship Fund (CSSF) payments.

Context: Taxes applied to 60 employers' accounts were tested. Of the 60, one account improperly included CSSF payments.

Cause: Beginning on January 1, 2008, the Department began collecting Competitive Skills Scholarship Fund taxes in conjunction with the UI tax. The UI tax system was not programmed to process and record CSSF payments properly. Not all accounts were corrected prior to the calculation of the 2009 unemployment insurance contribution rate.

Effect:
- Possible miscalculation and assignment of State UI employer tax rates
- Possible underpayment of taxes by employers

Recommendation: We recommend that the Department review employers' accounts to ensure rates were calculated using accurate contribution amounts.

Management's Response/Corrective Action Plan: *The Bureau agrees with the issues identified, and has assigned resources to reviewing the employer accounts.*

It is expected that the review will be completed before June 30, 2010 so that rates calculated for calendar year 2011 will accurately reflect both the regular UI contributions and the CSSF payments.

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

Please see the following comment for other issues related to this Department.

(ML09-0308-01) ***page 3***

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